

Whitepaper

Return Fraud Guide



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Return Fraud Guide

According to the [National Retail Federation](#), return fraud has ballooned into a \$101 billion issue, affecting a staggering 13.7% of all returns in 2023. For loss prevention and asset protection professionals, as well as operations and retail managers, understanding and combating this pervasive problem is critical for safeguarding profits and maintaining operational efficiency.

In this comprehensive guide, we explore essential topics such as the definitions and impact of return fraud, the common types of fraudulent returns, and the connection between organized retail crime and return fraud. You will also find practical steps to prevent return fraud and insights into how modern technology can be used to fight back.

What is Return Fraud?

Return fraud is a set of unethical practices where individuals (or organized groups) exploit a retailer's return policies for their own gain at the expense of the retailer. These fraudulent activities impact retailers by causing financial losses, damaging inventory accuracy, and undermining customer trust.



According to the National Retail Federation, return fraud has ballooned into a **\$101 billion issue**, affecting a staggering **13.7% of all returns in 2023**.

According to the National Retail Federation (NRF), retailers incur **\$166 million in merchandise returns for every \$1 billion in sales** and lose **approximately \$10.40 to return fraud for every \$100 of returned merchandise accepted**

Return Fraud vs. Refund Fraud vs. Refund Abuse

What's the Difference?

There are many different terms used to describe this range of practices, including return or returns fraud, retail return fraud, return abuse, refund fraud and refund abuse. Subtle distinctions between these terms' meanings describe variety in the specificity of acts and their legality.

Return Fraud

Return fraud involves the act of returning a product or requesting a refund when the product does not qualify for either. It specifically targets retail return policies, which might require a receipt or the original packaging. For instance, a person might falsely claim that an item is damaged or unsatisfactory to secure a refund or replacement, even though the product is in good condition. The goal here is to exploit customer-friendly return policies to gain undeserved benefits.

Unlike many other types of fraud, return fraud often exists in a gray area. It is perpetrated by fraud rings, crime syndicates, and hardened hackers: in fact, an entire industry has risen of fraudsters specializing in return fraud, fake tracking IDs (FTIDs), and empty boxing methods and services. But it is also done by regular shoppers who may be law-abiding citizens in any other aspect of their lives and good customers outside the occasional illegitimate refund.

Refund Fraud

Refund fraud is a broader term that encompasses any scam aimed at obtaining unwarranted refunds or reimbursements from companies, governments, or financial institutions. While return fraud falls under this category, refund fraud extends beyond retail settings. It includes fraudulent activities such as tax refunds, chargebacks, and insurance reimbursements. Essentially, refund fraud involves making false claims about an item or service to receive a monetary refund without returning the product in question.

Refund Abuse

Return or refund abuse, often seen as less severe than fraud, includes behaviors that exploit return policies without breaking the law to the same degree. This can involve practices like "bracketing," where customers buy multiple sizes or colors of a product and return the ones they don't want, or "wardrobing," where items are used once and then returned, which we describe more in-depth below. These actions, while not illegal, still lead to significant losses for retailers.

"This has been an extremely lucrative business for them (Organized Retail Crime groups)," Mathews said. "They're not just going to walk away from this."

Mark Mathews

Executive Director of Research - National Retail Federation (NRF) for [Fox Business](#)

The Impact of Return Fraud on Retailers

Return fraud poses a significant challenge for retailers, resulting in substantial financial losses and operational disruptions. According to the National Retail Federation (NRF), retailers incur \$166 million in merchandise returns for every \$1 billion in sales and lose approximately \$10.40 to return fraud for every \$100 of returned merchandise accepted. This staggering statistic translates to an estimated \$24 billion in losses annually.

The problem intensifies during peak shopping periods, particularly the holiday season between Thanksgiving and New Year's Day, when 25 percent of annual product returns occur. During this time, attempts at e-commerce fraud also surge, with TransUnion reporting that fraud attempt rates between Thanksgiving and Cyber Monday in 2022 were 82 percent higher globally compared to the rest of the year.

Beyond the financial hit, return fraud can erode customer trust and tarnish a retailer's reputation. When businesses tighten return policies to combat fraud, they risk alienating legitimate customers who may become hesitant to make purchases out of fear that their genuine returns might not be accepted. This shift can lead to a decline in sales and damage to the brand's credibility. Return fraud creates a tricky tightrope for retailers to walk between providing a good customer experience on the one hand and ballooning shrink and loss on the other.

Inventory Management Challenges

Return fraud also wreaks havoc on inventory management. Fraudulent returns create discrepancies between recorded inventory and actual stock levels, making it difficult for retailers to maintain accurate inventory records. This misalignment can result in overstocking or understocking issues, leading to either excess inventory storage costs or missed sales opportunities due to insufficient stock. One study found that retailers lose approximately 5-10% of their sales due to inventory inaccuracies caused by return fraud.

Moreover, processing fraudulent returns consumes valuable resources and time, diverting attention from managing legitimate inventory needs. The complications extend to warehousing and logistics, where additional steps are required to verify the authenticity and condition of returned items. These inefficiencies can slow down operations and increase overall handling costs. According to Deloitte, 10% of all supply chain costs are now dedicated to reverse logistics, which includes dealing with items fraudulently returned.

eCommerce Return Abuse

Returns, legitimate or not, are already costly for retailers. On average, returns cost retailers nearly 60% of the item's original sales price, adding a severe financial strain. When return abuse happens online in an e-commerce transaction, costs rise even higher.

Processing an online return is already a costly proposition, averaging 21% of an order's value, according to a Pitney Bowes survey of 168 retailers (half the respondents paid more than 21%). As shipping and processing costs have been rising, the costs of processing returns grow as well, adding an extra layer of loss on even 'harmless' refund abuse.

As retail shifts increasingly online, the dynamics of return fraud evolve. Approximately 38% of merchants have reported a rise in buy-online, return-in-store (BORIS) transactions, with 29% noting an increase in fraudulent returns within these transactions.

The continuous battle against return fraud requires robust loss prevention strategies to safeguard both the business's financial health and its relationship with honest customers.

Types of Return Fraud

Return fraud can take various shapes and forms, each presenting unique challenges for retailers. Here's a detailed look at some of the most common types of return fraud.

Wardrobing

Also known as "renting," wardrobing involves purchasing an item, using it briefly (often for special occasions), and then returning it for a full refund. This abuse takes advantage of lenient return policies. Picture a customer who buys an expensive dress for a wedding, wears it once, and then returns it the next day, claiming it was never worn. Retailers often struggle to prove the item has been used, leading to significant financial losses. For retailers with lenient return policies, some consumers may even 'rent' clothes for free for an entire season by buying and then returning them at the end of a season.

A whopping 50% of all return fraud is wardrobing. According to a survey by Forter, 56% of consumers confess to wardrobing, and one in four consumers said they bought an item during the 2023 holiday season with the intent to return it after use. Just under half of those who planned to wardrobe were between the ages of 18 and 34.

"Bracketing" is a milder form of wardrobing, where a shopper buys more than one size or color with the intent of returning whichever doesn't work for them. A more egregious form of return fraud similar to wardrobing is switch fraud or the "upgrade scam," when a consumer buys a product that they already own and return the old, used product as the new one for a full refund. Some scammers then sell the new item for a profit.

Despite its name, wardrobing happens with many products, not just clothing. It even happens with tools, appliances and other equipment, which are purchased for a single project and returned post-use, treating the purchase as a free rental. This is especially common with high-value items that are only needed temporarily. Distinguishing legitimate returns from those exploiting the return policy for a free rental can be a challenge for retailers.

Returning Stolen Goods

A more criminal form of return fraud is shoplifting from a store or obtaining merchandise illegally in another way and then attempting to return the items for cash or store credit. This is a straightforward and obvious form of fraud with the thief attempting to convert stolen merchandise into financial gain. A common scenario involves an individual who engages in theft and then employs a third party, such as a friend, acquaintance or even a stranger, to return the stolen items to the store for a refund. This method insulates the thief from direct involvement in the return process, where personal identification information is often collected by retailers.

E-commerce Fraud

The Empty Box scam also goes the other way with false claims of non-delivery, with customers falsely claiming that an item was not delivered (stolen from the porch or lost by the carrier) and seeking a refund or replacement, exploiting the retailer's policies to protect customer satisfaction while keeping the product.

E-commerce abuse can take other forms. Identify patterns of frequent returns or refunds and pinpoint potential abuse or fraudulent behavior using the [Agilence eCommerce Module](#).

Types of Return Fraud

Receipt Fraud

Receipt fraud or receipt manipulation involves altering or forging receipts to return items for a higher value than what was originally paid, or using found, counterfeit or stolen receipts to return merchandise. Consider an individual who finds a receipt in a parking lot, purchases the same item from another store, and then returns it using the found receipt to get a refund. This deceives the retailer into giving money back for merchandise that wasn't actually bought there. Criminal groups may also forge fake receipts for a given retailer and commit this type of fraud at scale across locations.

Receiptless returns are also a common way to commit refund abuse. Customers return items without a receipt, claiming they lost it, which could be a genuine mistake or an attempt to exploit return policies.

Fraudsters may also commit multiple returns with one receipt. In this case, a single receipt for a purchased item is exploited to return multiple instances of the same item across different store locations, often involving stolen goods. Determining the authenticity of the return and the original purchase price, especially during sales or promotions, can be challenging.

Receiving a Refund Greater than Purchase Price

Receiptless returns can allow customers to receive a higher refund than the original purchase price. This happens because some retailers issue refunds based on the current selling price of the item when a receipt isn't provided, allowing customers who bought items at a discount or benefitted from a coupon or other promotion to receive a full-price refund.

To counteract this, some companies use a Lowest Offered Price Lookup System, which checks the lowest price at which the item was sold during a specified period (e.g., the last 90 days) and issues the refund based on that amount. This practice aims to protect retailers from financial losses due to fraudulent returns while maintaining customer service standards.

Bricking

Bricking occurs when individuals return electronic items that have been deliberately damaged or replaced with non-functional parts, rendering the item useless ("bricked"). A customer buys a new smartphone, removes valuable components like the battery and screen, replaces them with non-functional parts, and then returns it claiming the device is faulty. They may then resell the valuable parts for a profit and pocket the refund fee. This leaves the retailer with a product that cannot be resold and must be written off as a loss.

Cross-Retailer Returns

Cross-retailer returns are a form of price arbitrage where a customer returns an identical item purchased at a lower cost to pocket the price difference. Picture a customer who buys a pair of shoes from a discount retailer and returns them to a high-end retailer with a more liberal return policy, claiming a higher refund. This practice exploits the differences in return policies between retailers. They also may buy a product on a sale or promotion and return it for full price to get the delta of the benefit back to them.

This type of return could be an accident, but it becomes fraud when done intentionally to exploit different prices and return policies between retailers. This type of fraud can be tricky to catch, as products may be legitimately purchased, but retailers may not be able to verify the origin of the purchase.

Types of Return Fraud

Empty Box Scam

Like wardrobing, the empty box scam is one of the most common forms of return fraud; however, in this case for e-commerce purchases. Like its name describes, customers return empty boxes or boxes filled with paper, rocks, or similar but cheaper items instead of the original merchandise. Criminals have scammed e-commerce companies such as Amazon for hundreds of thousands in this scam. Abusers may claim they were not responsible for the switch or deliberately alter the shipping address so the package will be hard to identify.

Product Not Present Returns

Customers claim that a product was defective (e.g., spoiled milk) and seek a refund without returning the item. Verifying the claim without physical evidence is a challenge, leading to potential abuse of return policies for perishable goods.

Employee Fraud

Refund fraud can also happen internally, with an employee manipulating the refund process from within the store. They may issue fraudulent refunds to their own personal accounts or help refund external fraudsters in exchange for a share of the money or some other reason.

Gift Card Fraud

Gift card fraud as a form of return fraud involves fraudsters returning stolen or fraudulently obtained merchandise to retailers in exchange for store credit or gift cards. These gift cards or store credits are then converted into cash through third-party marketplaces or machines like Coinstar. The primary challenge for retailers is to tighten the return process, especially for items returned without receipts, and to enhance the tracking of store credits and gift cards.

Check and Credit Card Fraud

In this scenario, fraudulent transactions are conducted either in-store or online using bad checks or stolen/fake credit card information. The items are then returned for cash or credit before the fraudulent payment is identified and reversed by the bank or card issuer. This type of fraud takes advantage of the lag time between the fraudulent purchase and its detection.

The challenge lies in quickly detecting and preventing transactions made with fraudulent checks or credit cards before the return process can be initiated. This requires real-time verification systems for checks and credit cards, improved staff training to spot potential fraud, and possibly delaying the refund process until the payment method has been verified as legitimate.

Fraudsters may also purchase an item with a stolen credit card, return the item, and then seek a refund in another account (however, this is less common than getting cash or store credit as there may be more processing time and risk for the fraudster).

ORC and Returns Fraud Abuse

Organized retail crime (ORC) related to return abuse and fraud involves coordinated efforts by individuals or groups to exploit retail return policies for financial gain.

While return fraud is often associated with everyday customers engaging in an opportunistic act, Organized Retail Crime (ORC) groups are increasingly involved in return fraud, leveraging sophisticated and coordinated tactics to exploit retail return policies for substantial financial gain. These groups often steal large quantities of merchandise, either directly from stores or through hijacking shipments, and then return these goods to multiple retailers across different locations without receipts. By exploiting lax return policies, they receive store credits or gift cards, which are subsequently sold on secondary markets or converted into cash through machines like Coinstar. This systematic approach allows ORC groups to generate significant revenue while causing considerable financial losses for retailers, who are left grappling with the repercussions of both the stolen merchandise and fraudulent returns.

The involvement of ORC groups in return fraud presents a major challenge for retailers, requiring more stringent measures and enhanced collaboration with law enforcement agencies. These criminal organizations often operate across state lines, making it difficult for individual retailers to track and combat their activities effectively. To counteract ORC-related return fraud, retailers need to invest in advanced technologies such as return management software and data analytics platforms such as Agilence Analytics to detect and prevent suspicious patterns. Additionally, sharing information and best practices within the retail industry and working closely with law enforcement can help dismantle these criminal networks and mitigate their impact on the retail sector.

How to Prevent Return Fraud: 10 Key Steps

Preventing return fraud requires a strategic approach that combines stringent policies, employee training, and advanced technology. Below are ten actionable steps that retailers can implement to minimize the risk of fraudulent returns, protect profits, and enhance overall store security. From establishing robust return policies to leveraging technology for tracking suspicious activities, these measures provide a comprehensive framework for tackling this costly issue.

- 1 Implement a Robust Return Policy:** Establish clear and strict return policies that are prominently displayed both in-store and online. Specify conditions such as time limits for returns, the need for original receipts, and the state of merchandise (e.g., unused, with tags attached). Ensure staff are trained to consistently enforce these policies.
- 2 Require Identification for Returns:** For returns without a receipt, require a valid photo ID. This helps create a record of the transaction and can deter fraudulent activity by making it easier to track and identify repeat offenders.
- 3 Employ a Lowest Price Refund Policy:** When processing non-receipted returns, use a system that refunds customers based on the lowest price the item was sold for during a specified period (e.g., the last 90 days). This prevents fraudsters from exploiting pricing discrepancies to gain higher refunds than what was originally paid.

How to Prevent Return Fraud: 10 Key Steps

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Monitor Gift Card Transactions: Keep a close eye on gift card purchases and redemptions. Implement measures such as limiting the amount that can be loaded onto a gift card and requiring additional verification for high-value transactions. Collaborate with third-party marketplaces to track and flag suspicious activities involving your store's gift cards.

5

Educate and Train Employees: Conduct regular training sessions for employees to help them recognize signs of return fraud and understand the importance of adhering to established return policies. Empower them to question suspicious returns and escalate issues to management when necessary.

6

Enhance Receipt Verification: Adopt advanced receipt verification technologies, like barcodes or QR codes, which can be scanned to validate purchase details quickly and accurately. This can prevent the use of counterfeit receipts in return fraud.

7

Limit Cash Refunds: Where possible, limit cash refunds and offer store credits instead. This can deter fraudsters who are primarily interested in converting returned merchandise into cash.

8

Collaborate with Other Retailers: Join retail associations or networks that share information on return fraud trends and known offenders. Collaborative efforts can lead to industry-wide strategies and more robust defenses against fraudulent activities.

9

Regularly Review and Update Policies: Continuously review and update your return policies and procedures to adapt to new fraud tactics. Stay informed about the latest trends in return fraud and adjust your preventive measures accordingly.

10

Use Technology to Track Returns: Invest in software tools that track return patterns by customer, product, and location. This can help identify suspicious activity, such as frequent returns by the same customer or high return rates for certain products. We explore this more in the next section.



Fighting Return Fraud with Technology

When it comes to combating return fraud and abuse, there's no silver bullet. Retailers need to employ a variety of strategies and technology together to get the best results. Returns management software, such as a real-time returns authorization tool, is an important piece of the puzzle. These tools use a rules- or score-based system to provide immediate feedback at the point of sale, informing the cashier whether a return can be processed. Rules-based systems systematically enforce customer policies, such as no returns on items with receipts older than a certain period, while score-based systems assign a score to each customer based on previous behavior in order to make decisions on return authorization.

However, a real-time authorization or returns management solution alone is not enough, as they may lack a broader analytical context that can identify trends and patterns and connect returns data to other customer behaviors and operational data sources. This is where a tool like Agilence Analytics shines. While returns authorization tools are crucial for real-time operational decisions in retail, integrating an advanced analytics solution like Agilence can provide the deeper insights and broader analysis necessary for strategic decision-making and reducing shrinkage effectively.



Identified \$960k worth of shrink in one year by targeting fraudulent refunds using Agilence Analytics

Agilence excels in identifying broader patterns and trends beyond real-time decisions; integrating data from returns authorization systems with other data sources to provide deeper insights into return patterns, cashier behaviors, and customer profiles; all while providing a more accessible and intuitive interface and a robust alert system.

Here are some of the key indicators users can view in Agilence Analytics to help catch and prevent return fraud:

- Non-receipted Same-day Returns
- Same-day, Same-cashier Returns
- Returns Outside of Policy
- Net Negative Transactions
- Returns to a Different Tender Type
- Product Not Present Returns
- Return Reason Codes
- Store Credit and Employee Discounts
- Cashier's Last Name or Address Matches the Customer's

To learn about how Agilence Analytics can help your business fight return fraud and abuse, [schedule a demo today!](#)

About **Agilence**

Agilence is the leader in loss prevention analytics, helping prominent retail, restaurant, and grocery companies increase their profit margins by reducing preventable loss.

At Agilence, we specialize in uniting digital and physical transactions to help cutting-edge loss prevention teams expand beyond traditional theft and fraud to tackle preventable loss in all its forms – in the store, online, and at the corporate office.

Every day, Agilence analyzes over 24 million transactions for our customers, transforming data into insights, and insights into actions. Our platform combines data from 200+ sources, including point-of-sale (POS), eCommerce, HR, labor, inventory, product, third-party delivery platforms, alarms, case management, loyalty, access control, video surveillance, and more.

Companies have saved millions of dollars by optimizing operations, identifying sources of margin erosion, and reducing shrink using Agilence. Many have also improved employee and customer safety, identified training opportunities, improved customer experiences, increased promotional success, and eliminated productivity gaps.

Visit Agilenceinc.com to learn more.

